

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Basic Financial Statements and Management's Discussion and Analysis

June 30, 2004

(With Independent Auditors' Report Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

June 30, 2004

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia:

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the accompanying basic financial statements of the Fairfax County Redevelopment and Housing Authority (the Authority), a component unit of the County of Fairfax, Virginia, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% of the total assets and 100% of the total revenues of the discretely presented component units as of and for the year ended June 30, 2004. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 1, 2004

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Introduction

The Fairfax County Redevelopment and Housing Authority (the FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment and revitalization programs within Fairfax County (the County) as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors (the Board) created the Department of Housing and Community Development (HCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low and moderate income residents.

The FCRHA's fiscal year (FY) 2004 annual financial report consists of two parts – the management's discussion and analysis (MD&A) and the basic financial statements and notes to those financial statements.

The FCRHA presents this MD&A of its financial performance during the fiscal year ended June 30, 2004, to assist the reader in focusing on significant financial issues and concerns. This year's MD&A presents a comparative analysis of financial data to help the reader ascertain the reasons for changes in assets, liabilities, expenses, revenues, and net asset balances from the previous year.

This MD&A is focused solely on the primary activities of the FCRHA and does not include the financial results of the discretely presented component units.

Financial Highlights for FY2004

The FCRHA's FY2004 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately \$128.9 million and \$55.8 million, respectively; thus total net assets were approximately \$73.1 million at June 30, 2004.
- Total revenues and expenses were approximately \$63.0 million and \$60.0 million, respectively; resulting in an increase in net assets of approximately \$3.0 million during the fiscal year. This increase represents the net effects of operating and nonoperating revenues and expenses, which includes some noncash items such as depreciation expense, gain on disposition of property held for sale, and HUD debt service and capital contributions.
- Revenues in the FCRHA's programs are derived from various sources with approximately 70% from non-County sources, primarily funds transferred from the U.S. Department of Housing and Urban Development (HUD). For example, approximately 63%, or \$40.0 million of the \$63.0 million in total revenues, is derived from the Public Housing and Housing Choice Voucher programs. Rental revenues from FCRHA-owned properties were approximately \$11.1 million, or 18% of total revenues.
- Cash and cash equivalents increased by approximately \$6.7 million.

FCRHA Financial Statements

The FCRHA's mission in the County focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low and moderate income households, and on assisting in the revitalization of neighborhoods in Fairfax County. The FCRHA, as of June 30, 2004, owned over 2,500 residential units that were leased to low and moderate income families and individuals, 11 properties that served

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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Management's Discussion and Analysis (MD&A)

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177 individuals in supportive housing programs, and a 12-acre site with foundations for 115 mobile homes. In addition, housing assistance was paid to 3,146 households under the Federal Housing Choice Voucher program for privately owned existing housing and to 30 households who received payments through the Housing Opportunities for Persons with AIDS (HOPWA) program.

The FCRHA presents its financial results in three basic financial statements – the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The statement of net assets, which is similar to a balance sheet, reports all financial and capital assets of the FCRHA and is presented in a format where assets minus liabilities equals net assets. Net assets are broken down into the following three categories:

- *Net assets, invested in capital assets, net of related debt* consist of all capital assets, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consist of assets on which constraints are placed by creditors (such as debt covenants), grantors, contributors, laws, or regulations.
- *Unrestricted net assets* consist of net assets that do not meet the definition of net assets that fall in either one of the two categories discussed above – invested in capital assets, net of related debt, or restricted net assets.

The statement of revenues, expenses, and changes in net assets includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, and depreciation expense, and nonoperating revenues and expenses, such as grant revenue, investment income, and interest expense. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting and report the FCRHA's net assets and changes in net assets. Under the full accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period when they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Net Assets

The following table presents a summary of FCRHA's net assets as of June 30, 2004 and 2003.

Table 1
Summary of Net Assets
June 30, 2004 and 2003
(In millions)

Description	2004	2003	Increase (decrease)	% Changed
Current and other assets	\$ 57.3	53.4	3.9	7.3
Capital assets	71.6	74.0	(2.4)	(3.2)
Total assets	128.9	127.4	1.5	1.2
Current liabilities	16.8	16.2	0.6	3.7
Long-term liabilities	39.0	41.2	(2.2)	(5.3)
Total liabilities	55.8	57.4	(1.6)	(2.8)
Net assets:				
Invested in capital assets, net of related debt	44.3	45.9	(1.6)	(3.5)
Restricted	8.5	7.8	0.7	9.0
Unrestricted	20.3	16.3	4.0	24.5
Total net assets	\$ 73.1	70.0	3.1	4.4

The total net assets of the FCRHA's programs were \$73.1 million and \$70.0 million at June 30, 2004 and 2003, respectively. Investments in capital assets comprise approximately 55% of the FCRHA's total assets, while the related debt amounts to approximately 70% of its total liabilities. However, capital assets net of related debt amount to about 61% of total net assets.

The FCRHA's total net assets also consisted of restricted net assets of \$8.5 million and \$7.8 million and unrestricted net assets of \$20.3 million and \$16.3 million at June 30, 2004 and 2003, respectively. Restricted net assets include cash and investments consisting of restricted deposits and funded reserves for repairs and replacements required by HUD and Virginia Housing Development Authority guidelines, as well as cash balances in accordance with certain bond indentures. Unrestricted net assets include cash in the bank, cash on deposit with the County of Fairfax, receivables net of allowances, prepaids, and other assets. The following graph illustrates the relative percentage of the FCRHA's net assets invested in capital assets and the remaining restricted and unrestricted net assets.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

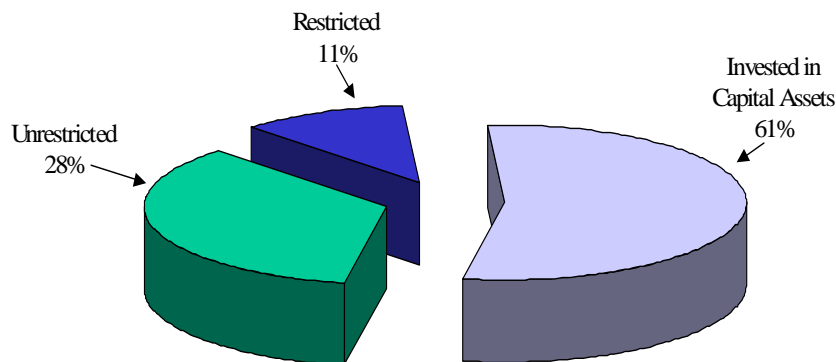
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Management's Discussion and Analysis (MD&A)

June 30, 2004

Composition of FCRHA's Net Assets

June 30, 2004



Revenues, Expenses, and Changes in Net Assets

The results of the FCRHA's operations are reported in the statement of revenues, expenses, and changes in net assets. In FY2004, the FCRHA's enterprise programs realized an increase in net assets of approximately \$3.0 million. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY2004 and FY2003 and a comparative analysis of activities in these years. The increase in nonoperating revenues is primarily due to the increase in portability income from the Housing Choice Voucher Program and gain on disposition of property held for sale.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004 and 2003
(In millions)

Description	FY 2004	FY 2003	Increase (decrease)	% Changed
Revenues:				
Operating revenues	\$ 14.0	13.7	0.3	2.2
Nonoperating revenues and contributions	49.0	42.0	7.0	16.7
Total revenues	63.0	55.7	7.3	13.1
Expenses:				
Operating expenses	57.7	52.3	5.4	10.3
Nonoperating expenses	2.3	4.1	(1.8)	(43.9)
Total expenses	60.0	56.4	3.6	6.4
Increase (decrease) in net assets	\$ 3.0	(0.7)	3.7	(528.6)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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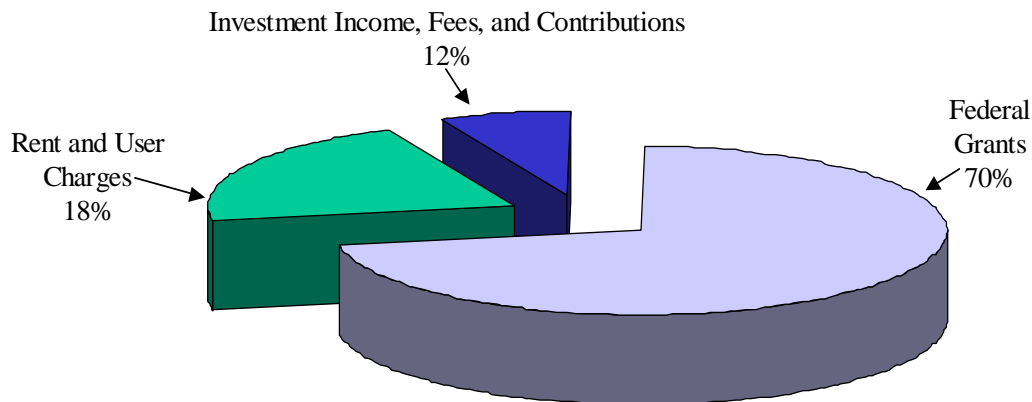
Management's Discussion and Analysis (MD&A)

June 30, 2004

About 78% of the FCRHA's total revenues in FY2004 were nonoperating revenues and contributions that were derived from federal grants from HUD. The remaining 22% were operating revenues derived from rents and other user charges, development and financing fees, and investment income. The following graph illustrates the major sources of these revenues and their relative percent of the total.

FCRHA Enterprise Programs

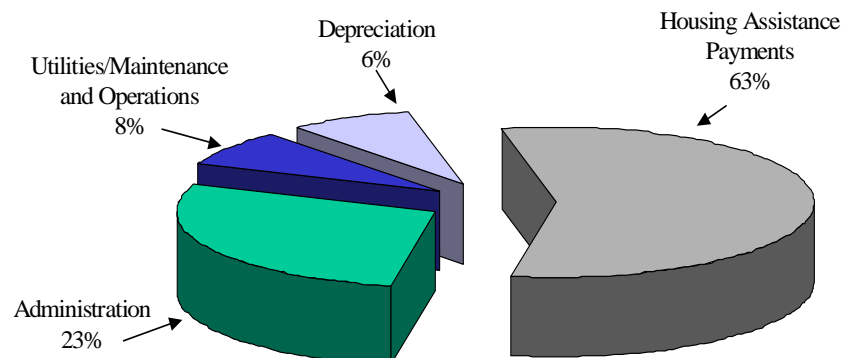
FY2004 Sources of Funds



In FY2004, the FCRHA incurred expenses in its enterprise programs totaling approximately \$60.0 million, most of which are operating expenses related to its role as a public housing authority. About \$36.3 million, or 63% of the \$57.7 million in operating expenses is for housing assistance payments made in the Housing Choice Voucher Program. The second largest operating expense is the costs related to program administration. These costs amounted to \$13.3 million, or 23%, and include personnel salaries and employee fringe benefit contributions, auditing costs, insurance, and office supplies. The following graph illustrates these major expense groups and their relative percent of the total.

FCRHA Enterprise Programs

FY2004 Operating Expenses



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Management's Discussion and Analysis (MD&A)

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Capital Assets and Debt Administration

Capital Assets

The FCRHA capital assets at June 30, 2004 and 2003, included land, buildings and improvements, equipment, and construction in progress, which totaled \$71.6 million and \$74.0 million, respectively. A breakdown of these assets is shown in Table 3.

Table 3
Capital Assets of the FCRHA
June 30, 2004 and 2003
(In millions)

Description	2004	2003	Increase (decrease)	% Changed
Non-depreciable assets:				
Land	\$ 25.6	25.5	0.1	0.4
Construction in progress	2.1	2.7	(0.6)	(22.2)
Depreciable assets:				
Buildings and improvements	101.2	99.6	1.6	1.6
Equipment	2.3	2.2	0.1	4.5
Accumulated depreciation	(59.6)	(56.0)	(3.6)	6.4
Totals	\$ 71.6	74.0	(2.4)	(3.2)

The FCRHA had approximately \$0.6 million in net deletions to construction in progress (CIP) in FY2004. The reduction in CIP is primarily a result of the reclassification of CIP to depreciable assets in the Capital Fund Program. The County's FY2005–FY2009 Capital Improvement Program, which was approved by the Board on April 26, 2004, proposed ten housing development projects, totaling \$51.2 million. These projects will provide housing and home ownership opportunities under programs to assist first-time homebuyers and assisted living and elderly living units. Also, the Magnet Housing project is in the development phase with the goal of being completed in FY2007.

Debt Administration

The FCRHA's FY2004 and FY2003 financial statements include long-term debt – consisting of housing loans, notes, and bonds payable – of approximately \$50.0 million and \$49.5 million, respectively.

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Public bond issues are project specific and have been rated by Standard and Poor's at either "AA" or "AAA" depending upon the collateral securing the debt. Other debt of the FCRHA is a direct placement with institutional lenders without the need for a credit rating.

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, customers, investors, and creditors with a general overview of the FCRHA's operations and finances and to demonstrate the FCRHA's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia 22030.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Statement of Net Assets

June 30, 2004

Assets	Enterprise Fund	Component Units	Total Reporting Entity
Current assets:			
Cash in bank (note 2)	\$ 1,914,013	5,488,529	7,402,542
Cash on deposit with the County of Fairfax, Virginia (note 2)	26,407,979	—	26,407,979
Accrued interest receivable	34,534	3,730	38,264
Accounts receivable (net of allowances) (note 3)	11,663,081	200,432	11,863,513
Notes, mortgages, and other receivables (note 3)	1,961,179	—	1,961,179
Deposits held in trust	46,735	542,420	589,155
Property held for sale	898,446	—	898,446
Prepaid items and other assets	145,079	15,356	160,435
Total current assets	43,071,046	6,250,467	49,321,513
Noncurrent assets:			
Restricted assets (note 2):			
Cash reserves	8,270,481	2,752,924	11,023,405
Investments	181,454	—	181,454
Total restricted assets	8,451,935	2,752,924	11,204,859
Capital assets (note 4):			
Non-depreciable:			
Land	25,550,999	6,966,628	32,517,627
Construction in progress	2,058,823	—	2,058,823
Depreciable:			
Buildings and improvements	101,245,850	54,702,872	155,948,722
Equipment	2,329,243	606,112	2,935,355
Accumulated depreciation	(59,608,034)	(13,402,050)	(73,010,084)
Total capital assets, net	71,576,881	48,873,562	120,450,443
Other noncurrent assets:			
Notes, mortgages, and other receivables (note 3)	5,775,396	—	5,775,396
Prepaid items and other assets	3,670	313,820	317,490
Deferred financing fees (net of accumulated amortization of \$3,188)	26,213	—	26,213
Total other noncurrent assets	5,805,279	313,820	6,119,099
Total assets	\$ 128,905,141	58,190,773	187,095,914
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 2,646,115	2,562,962	5,209,077
Accrued salaries and benefits	377,004	—	377,004
Due to the County of Fairfax, Virginia	77,651	4,530,821	4,608,472
Deposits held in trust	1,381,061	313,366	1,694,427
Deferred revenue	372,253	55,909	428,162
Accrued compensated absences (note 5)	424,608	—	424,608
Bonds, notes, loans, and other payables (note 5)	11,524,738	2,023,578	13,548,316
Total current liabilities	16,803,430	9,486,636	26,290,066
Noncurrent liabilities:			
Accrued compensated absences (note 5)	489,160	—	489,160
Bonds, notes, loans, and other payables (note 5)	38,515,251	31,964,599	70,479,850
Total noncurrent liabilities	39,004,411	31,964,599	70,969,010
Total liabilities	55,807,841	41,451,235	97,259,076
Net Assets			
Invested in capital assets, net of related debt	44,331,262	15,506,855	59,838,117
Restricted	8,451,935	2,981,978	11,433,913
Unrestricted (deficit)	20,314,103	(1,749,295)	18,564,808
Total net assets	\$ 73,097,300	16,739,538	89,836,838

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

	Enterprise Fund	Component Units	Total Reporting Entity
Operating revenues:			
Dwelling rentals	\$ 11,053,963	5,047,557	16,101,520
Other	3,019,627	806,220	3,825,847
Total operating revenues	<u>14,073,590</u>	<u>5,853,777</u>	<u>19,927,367</u>
Operating expenses:			
Personnel services	8,582,246	1,016,462	9,598,708
Contractual services	1,425,181	76,818	1,501,999
Utilities	1,919,632	760,166	2,679,798
Repairs and maintenance	2,293,527	1,038,516	3,332,043
Other supplies and expenses	3,274,121	1,559,811	4,833,932
Housing Assistance Payments	36,581,124	—	36,581,124
Depreciation and amortization	3,613,622	1,796,872	5,410,494
Total operating expenses	<u>57,689,453</u>	<u>6,248,645</u>	<u>63,938,098</u>
Operating loss	<u>(43,615,863)</u>	<u>(394,868)</u>	<u>(44,010,731)</u>
Nonoperating revenues (expenses)			
Intergovernmental revenue	44,004,585	—	44,004,585
Interest revenue	523,311	44,519	567,830
Interest expense	(2,378,410)	(1,140,962)	(3,519,372)
Gain on disposition of property held for sale	3,086,787	—	3,086,787
Total nonoperating revenues (expenses), net	<u>45,236,273</u>	<u>(1,096,443)</u>	<u>44,139,830</u>
Income (loss) before contributions	<u>1,620,410</u>	<u>(1,491,311)</u>	<u>129,099</u>
Contributions:			
Investor capital contributions	—	2,775,656	2,775,656
HUD debt service contributions	239,205	—	239,205
HUD capital contributions	1,205,782	—	1,205,782
Total contributions	<u>1,444,987</u>	<u>2,775,656</u>	<u>4,220,643</u>
Change in net assets	3,065,397	1,284,345	4,349,742
Total net assets, beginning of year	<u>70,031,903</u>	<u>15,455,193</u>	<u>85,487,096</u>
Total net assets, end of year	<u>\$ 73,097,300</u>	<u>16,739,538</u>	<u>89,836,838</u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Statement of Cash Flows
Year ended June 30, 2004

	Enterprise Fund	Component Units	Total Reporting Entity
Cash flows from operating activities:			
Rental receipts	\$ 11,524,843	5,084,103	16,608,946
Other operating cash receipts	790,067	827,088	1,617,155
Proceeds from sale of property held for sale	608,066	—	608,066
Payments to employees for services	(8,444,457)	(1,016,462)	(9,460,919)
Housing Assistance Payments made	(36,688,830)	—	(36,688,830)
Payments to suppliers for goods and services	(8,594,528)	(2,325,994)	(10,920,522)
Net cash provided by (used in) operating activities	(40,804,839)	2,568,735	(38,236,104)
Cash flows from non-capital financing activities:			
Intergovernmental revenues received	43,701,594	—	43,701,594
Net cash provided by non-capital financing activities	43,701,594	—	43,701,594
Cash flows from capital and related financing activities:			
Purchase of capital assets	(1,333,130)	(6,261,711)	(7,594,841)
Proceeds from sale of capital assets	4,339,448	—	4,339,448
Capital contributions	—	2,775,656	2,775,656
Proceeds from issuance of debt	9,044,500	3,407,571	12,452,071
Interest paid	(2,349,390)	(1,022,182)	(3,371,572)
Debt principal paid	(8,540,238)	(836,438)	(9,376,676)
Repayment of amount due to the County	(1,591,703)	—	(1,591,703)
HUD debt service and capital contributions	1,444,987	—	1,444,987
Net cash used in capital and related financing activities	1,014,474	(1,937,104)	(922,630)
Cash flows from investing activities:			
Receipt of loan and advance repayments	2,454,368	—	2,454,368
Disbursement of loans and advances receivable	(146,588)	—	(146,588)
Maturity of investments	8,695	—	8,695
Interest received on investments	516,199	44,519	560,718
Net cash provided by investing activities	2,832,674	44,519	2,877,193
Net increase in cash and cash equivalents	6,743,903	676,150	7,420,053
Cash and cash equivalents, beginning of year	29,895,305	8,107,723	38,003,028
Cash and cash equivalents, end of year	\$ 36,639,208	8,783,873	45,423,081
Reconciliation to statement of net assets:			
Cash in bank	\$ 1,914,013	5,488,529	7,402,542
Cash on deposit with the County of Fairfax, Virginia	26,407,979	—	26,407,979
Cash deposits held in trust	46,735	542,420	589,155
Cash reserves	8,270,481	2,752,924	11,023,405
Cash and cash equivalents	\$ 36,639,208	8,783,873	45,423,081
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (43,615,863)	(394,868)	(44,010,731)
Depreciation and amortization	3,613,622	1,796,872	5,410,494
(Increase) decrease in accounts receivable	(1,704,472)	67,415	(1,637,057)
(Increase) decrease in prepaid items and other assets	689,458	30,563	720,021
Increase (decrease) in accounts payable and accrued liabilities	(45,640)	1,078,754	1,033,114
Increase (decrease) in accrued salaries and wages	137,790	—	137,790
Increase (decrease) in deposit held in trust	572,555	20,868	593,423
Increase (decrease) in deferred revenue	(452,289)	(30,869)	(483,158)
Net cash provided by (used in) operating activities	\$ (40,804,839)	2,568,735	(38,236,104)
Noncash investing, capital, and financing activities:			
Increase in fair value of restricted investments	\$ 8,190	—	8,190

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Notes to Financial Statements

June 30, 2004

(1) Organization Profile

These financial statements include the activities of the Fairfax County Redevelopment and Housing Authority (the Authority or FCRHA). The Authority administers various housing and community development programs within the County of Fairfax, Virginia (the County). The Authority is a political subdivision of the Commonwealth of Virginia created pursuant to Chapter 1 of Title 36 of the Code of Virginia of 1950, as amended, by resolution of the Board of Supervisors of Fairfax County and approved in a referendum of voters in the County on November 2, 1965. On February 23, 1966, the Board of Supervisors declared the Authority activated. The powers, duties, and responsibilities of the Authority are set forth in Title 36 of the Code of Virginia of 1950, as amended. The Authority is a component unit of the County.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governmental units. The following is a summary of the Authority's more significant accounting policies.

(a) Reporting Entity

As required by GAAP, the accompanying financial statements present the financial position and result of operations of the Authority (the primary government) and its component units. The financial results of the component units are included in the Authority's basic financial statements because of the significance of their operational or financial relationships with the Authority. The Authority and its component units are together referred to herein as the reporting entity.

Discretely Presented Component Units

The Authority is the managing general partner in a number of real estate limited partnerships. The limited partnership interests are held by third parties unrelated to the Authority. As the managing general partner, the Authority has certain rights and responsibilities which enable it to impose its will on the limited partnerships. Additionally, the Authority is financially accountable for the limited partnerships as the Authority is legally obligated to fund operating deficits in accordance with the terms of the partnership agreements.

Blended Component Unit

Additionally, the Authority is the managing general partner of one other real estate partnership that is also considered a component unit of the Authority for the same reasons discussed above. However, because the Authority is not only the managing general partner but also controls the limited partnership interests, it is considered a blended component unit.

The blended component unit has a June 30 fiscal year-end. All discretely presented component units have a December 31 fiscal year-end. Accordingly, the amounts included for each component unit are as of and for the year-ends that fall within the year ended June 30, 2004. A copy of the most recently issued financial statements for each of the component units can be obtained by contacting: Fairfax County Redevelopment and Housing Authority; Financial Management Division, 3700 Pender Drive, Fairfax, Virginia 22030.

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Notes to Financial Statements

June 30, 2004

(b) Basis of Presentation

The accounts of the Authority are presented in single proprietary fund financial statements consisting of various programs. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. The operations of the Authority are accounted for in the three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The statement of net assets and the statement of changes in net assets report information on all activities of the Authority and its components units. Likewise, the Authority is reported separately from legally separate component units for which the Authority is financially accountable.

The Authority's activities include the following programs:

The following two programs include programs provided by the County through its Department of Housing and Community Development (HCD). The HCD was established by the Board of Supervisors on December 12, 1973, to assume the administrative functions of the Authority and to function as the County's agency for administration of all housing and community development programs. In this action, the Board of Supervisors also established that the County executive would be the executive director and the secretary of the Authority.

Elderly Housing Programs are used to account for the affordable rental housing owned by the Authority and occupied by the elderly.

Homeowners and Business Loan Program is used to account for funds used to assist low and moderate income families to become homeowners in the County or to improve their current living space through repair or rehabilitation. It is also used to account for the operation of small and minority business loan programs that are funded by the federal government.

The Authority's other programs, described below, are financed primarily by federal grants from the U.S. Department of Housing and Urban Development (HUD), rents, and other user charges resulting from the operations of subsidized housing, development and financing fees, investment income, and loan proceeds. These funds provide rental housing, housing for the elderly/group homes, loans for home ownership and home improvement, tenant rental assistance, community development, and the development and administration of these programs. A description of each of these programs follows:

Public Housing Program is used to account for operating and capital costs of rental housing owned and operated by the Authority and subsidized by the HUD public housing program. Other funding sources include rental income and other user charges.

Housing Choice Voucher Program is a federal housing assistance program for lower income families seeking housing in the private market place. HUD provides funds to pay a portion of the family's rent.

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Operating Program is used to account for projects and for real property that is not accounted for in other Authority programs. The primary source of revenue is development and financing fees earned by the Authority from private developers of affordable multifamily housing.

Revolving Development Program is used to provide funds for initial project costs, such as new site investigations, architectural and engineering plans, studies, and fees. This funding ensures that adequate plans and proposals are completed prior to application for project financing from federal, state, or private sources. These initial costs are anticipated to be recovered from permanent project financing.

Capital Contributions Program is used to account for equity and project improvements so that a project or program is financially feasible.

Private Finance Program is used to budget and report costs for capital projects that are supported wholly or partially by funds borrowed by the Authority or through the Authority's sale of notes or bonds. Housing development and improvement projects may be financed with funds borrowed from private lenders, the Virginia Housing Development Authority (VHDA), or the federal government.

Rehabilitation Loan Program is used to account for the Authority's portion of the funding for the Home Improvement Loan Program (HILP). These funds are borrowed by the Authority from private lenders. The HILP, which is administered by HCD, provides a variety of home improvement or rehabilitation loans primarily to single family homeowners.

Fairfax County Rental Program is used to provide affordable rental housing (other than federal public housing) in the County for low and moderate income families.

Grant Program is used to account for programs receiving grant monies. This program includes the Housing Opportunities for Persons with AIDS project and the Resident Opportunities and Self Sufficiency project.

(c) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Authority applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989, unless these pronouncements conflict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are rental charges and other charges related to use of

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property. The Authority also recognizes as operating revenues management and development fees, excess utility charges, and other tenant charges. Operating expenses include personnel services, contractual services, administrative expenses, utility expenses, ordinary repair and maintenance expenses, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) *Cash on Deposit with the County of Fairfax, Virginia*

The primary government maintains the majority of its available cash in the County's cash and investment pool administered by the County Investment/Cash Management Division. To optimize investment returns, the Authority's funds are invested together with all other County pooled funds, all of which are fully insured or collateralized. The County allocates, on a monthly basis, any investment earnings, less an administrative charge, based on the Authority's average balance in pooled cash and investments.

(e) *Restricted Cash and Investments*

Restricted cash and investments primarily consist of restricted deposits and funded reserves for repairs and replacements required to be maintained under HUD and VHDA guidelines, as well as cash balances in accordance with certain bond indentures. All of the primary government cash deposits are covered by federal depository insurance or have been fully collateralized. Restricted investments consist of repurchase agreements, which are managed by the County and reported at fair value. The County's investment policy requires that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying repurchase agreements is monitored on a daily basis during the year by the County to ensure compliance with the policy. These investments are collateralized by United States Government securities held by the financial institution's trust department in the name of the County.

(f) *Cash and Cash Equivalents*

For purposes of preparing the statement of cash flows, cash and cash equivalents include unrestricted cash in bank, cash on deposit with the County of Fairfax, Virginia, and restricted cash reserves.

(g) *Capital Assets*

Capital assets, which include land, buildings and improvements, equipment, and construction in progress are reported in the financial statements at cost when purchased and at estimated fair value when donated. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Depreciation has been provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated useful lives using the straight line method. The estimated useful lives range from 5 to 27 ½ years.

(h) *Compensated Absences*

Employees of the Authority are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current

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rate of pay, up to certain limits. Sick leave does not vest with the employee. Accumulated vacation is recorded as an expense and a liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (i.e., employer's share of social security taxes).

(i) *Revenue Recognition*

The Authority has entered into Annual Contributions Contracts with HUD to develop, manage, and own public housing projects and to administer the Housing Choice Voucher Program, whereby monthly housing assistance payments are made to landlords on behalf of eligible lower income individuals and families. HUD makes annual debt service contributions and monthly operating subsidy contributions within the Public Housing Program and monthly contributions for housing assistance payments and administration fees for the Housing Choice Voucher Program. Such contributions are reflected as intergovernmental revenue in the accompanying financial statements.

Other intergovernmental revenues are reported under the legal contractual requirements of the individual programs.

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned. Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. The allowance method is used to recognize bad debts.

(j) *Notes, Mortgages, and Other Receivables*

Notes, mortgages, and other receivables are carried at amounts advanced, net of a reserve for uncollectible accounts, if any.

(k) *Use of Estimates in Preparing Financial Statements*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) **Receivables**

(a) *Accounts Receivable*

Accounts receivable at June 30, 2004, consisted of the following:

Tenant receivables (net of allowances of \$174,286)	\$ 122,940
Due from the County of Fairfax, Virginia	10,749,319
Due from U.S. Department of Housing and Urban Development	156,485
Due from other governments (Section 8 Portability)	565,534
Management fee due from component units	68,803
	<hr/>
	\$ 11,663,081
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(b) Notes Receivable

Notes receivable at June 30, 2004, consisted of the following:

Lake Anne of Reston	Unsecured notes, bearing interest at 3.73% to 7.90%, maturing July 1, 2015, principal and interest payments of \$28,400 due annually.	\$ 130,039
Herndon Harbor House I	Secured note bearing interest at 5.25%, maturing July 1, 2027, interest and principal payments of \$6,383 due monthly.	926,593
Herndon Harbor House II	Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of \$12,480 due monthly.	1,928,509
Castellani Meadows	Secured note bearing interest at 5.25%, maturing March 1, 2028, interest and principal payments of \$5,542 due monthly.	829,466
Homeowners' and Business Loan Program	Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of \$2,368,344.	2,434,228
		<u>6,248,835</u>
Less current notes receivable		<u>(801,574)</u>
Non-current notes receivable		<u>\$ 5,447,261</u>

(c) Mortgages Receivable

Under the Authority's Home Improvement Loan Program, qualified County residents who are unable to obtain financing from commercial sources, may be loaned funds by the Authority. The Authority has borrowed the funds used in the program from various commercial banks, with the mortgage receivables pledged as security. At June 30, 2004, home improvement loans receivable under this program were \$42,431 bearing interest at varying rates up to 3%.

(d) Other Receivables

Under the Authority's Revolving Development Program, the Authority provides advances to other projects to fund start-up costs. At June 30, 2004, advances receivable consisted of \$1,445,309, of which \$1,159,605 is due within the next year.

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(4) Capital Assets

Capital asset activity for the year ended June 30, 2004, is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Land	\$ 25,511,767	39,232	—	25,550,999
Construction-in-progress	<u>2,674,619</u>	<u>736,057</u>	<u>1,351,853</u>	<u>2,058,823</u>
Total capital assets, non-depreciable	<u>28,186,386</u>	<u>775,289</u>	<u>1,351,853</u>	<u>27,609,822</u>
Capital assets, depreciable:				
Buildings and improvements	99,619,676	1,626,174	—	101,245,850
Equipment	<u>2,238,835</u>	<u>119,521</u>	<u>29,113</u>	<u>2,329,243</u>
Total capital assets, depreciable	<u>101,858,511</u>	<u>1,745,695</u>	<u>29,113</u>	<u>103,575,093</u>
Less accumulated depreciation for:				
Buildings and improvements	54,186,264	3,488,032	—	57,674,296
Equipment	<u>1,839,384</u>	<u>123,467</u>	<u>29,113</u>	<u>1,933,738</u>
Total accumulated depreciation	<u>56,025,648</u>	<u>3,611,499</u>	<u>29,113</u>	<u>59,608,034</u>
Total depreciable capital assets, net	<u>45,832,863</u>			<u>43,967,059</u>
Total enterprise fund capital assets, net	<u>\$ 74,019,249</u>			<u>71,576,881</u>

(5) Long Term Debt

(a) Public Housing Loans

Public housing project debt is comprised of the following at June 30, 2004:

Public housing notes – Federal Financing Bank	\$ 1,229,839
Public housing bonds	<u>315,000</u>
	<u>\$ 1,544,839</u>

To permanently finance certain public housing projects, the Authority issued notes to the Federal Financing Bank. These notes are payable in annual installments each November 1 until maturity in 2015, with interest at 6.6% and are secured by the projects' land, structures, and equipment. Debt service on the notes (principal and interest) is paid annually by HUD under Annual Contributions Contract P 184.

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To permanently finance the Rosedale Manor public housing project, the Authority issued bonds in the original principal amount of \$1,260,000 with interest at 5% maturing April 1, 2009. Debt service on the bonds (principal and interest) is paid semiannually by HUD under Annual Contributions Contract P 184.

All principal and interest paid under the Annual Contributions Contracts by HUD is recorded as nonoperating revenues in the accompanying financial statements.

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June 30, 2004

(b) Notes Payable

Notes payable consist of the following at June 30, 2004:

Note holder(s)	Terms	Outstanding balance
U.S. Dept. of Housing and Urban Development	Secured by Hopkins Glen rental property, bearing interest at 3%, maturing April 1, 2010, principal and interest payments of \$4,073 monthly.	\$ 261,242
Bank of America	Secured by Colchester Town, McLean Hills, and Springfield Green rental properties, bearing interest at 8.5%, maturing April 1, 2005, principal and interest payments of \$9,546 monthly.	747,638
Virginia Housing Development Authority	Secured by Minerva Fisher-Hall Group Home property, bearing interest at 8.07%, maturing June 1, 2019, principal and interest payments of \$3,063 monthly.	318,727
SunTrust Bank	Secured by the United Community Ministries (UCM) office building, bearing interest at 4.71%, maturing April 1, 2013, principal and interest payments of \$3,164 monthly.	273,991
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 6.45% to 9.15%, maturing at varying dates through August 1, 2011, variable principal and interest payments due semiannually.	2,270,000
Virginia Housing Development Authority	Secured by Penderbrook rental property, bearing interest at 10.25%, maturing October 1, 2018, principal and interest payments of \$6,900 monthly.	620,750
Various note holders within the Home Improvement Loan Program	Secured by various properties owned by note holders, bearing interest at rates ranging from 9% to 12.5%, maturing at various dates through December 31, 2004, principal and interest payments monthly.	46,690
Virginia Housing Development Authority	Secured by the Rolling Road Group Home property, bearing interest at 8%, maturing September 1, 2020, principal and interest payments of \$1,952 monthly.	213,166
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by Stonegate Village rental property, bearing interest at 8.00% to 9.25%, maturing at varying dates through August 1, 2005, variable principal and interest payments due semiannually.	390,000

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Note holder(s)	Terms	Outstanding balance
Virginia Housing Development Authority	Secured by the Patrick Street Group Home property, bearing interest at 8%, maturing May 1, 2022, principal and interest payments of \$1,997 monthly.	\$ 228,251
Virginia Housing Development Authority	Secured by the Mount Vernon Group Home property, bearing interest at 8%, maturing April 1, 2022, principal and interest payments of \$1,789 monthly.	205,539
SunTrust Bank	Secured by the LeLand Road Group Home property, bearing interest at 5.55%, maturing April 1, 2017, principal and interest payments of \$4,581 monthly.	503,846
Virginia Housing Development Authority	Secured by the West Ox Group Home Property, bearing interest at 8%, maturing October 1, 2022, principal and interest payments of \$6,176 monthly.	711,387
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 3.73% to 7.90%, maturing at varying dates through August 1, 2012, variable principal and interest payments due semiannually.	1,395,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 4.75% to 7.18%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually.	2,020,000
United Bank	Secured by the One University Plaza office and maintenance building, bearing interest at 5%, maturing February 1, 2014, principal and interest payments of \$2,827 monthly.	259,601
Virginia Housing Development Authority	Secured by the First Stop Group Home property, bearing interest at 8%, maturing March 1, 2005, principal and interest payments of \$3,325 monthly.	403,400
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2015, variable principal and interest payments due semiannually.	300,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2011, variable principal and interest payments due semiannually.	40,000

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Note holder(s)	Terms	Outstanding balance
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2005, variable principal and interest payments due semiannually.	\$ 100,000
Midland Loan Services, Inc.	Secured by Cedar Ridge rental property, bearing interest at 7.05%, maturing July 1, 2035, principal and interest payments of \$63,325 monthly.	9,559,267
WMF Huntoon Paige	Secured by Cedar Ridge rental property, bearing interest at 3%, maturing September 1, 2010, principal and interest payments of \$10,203 monthly.	696,938
U.S. Dept. of Housing and Urban Development	Promissory note for a Capital Improvement Loan, secured by Cedar Ridge rental property, for an amount of \$1,510,000, bearing interest at 1% on the principal amount. No scheduled maturity date.	1,317,533
SunTrust Bank	Secured by a first deed of trust on Creighton Square Property a.k.a. Mondloch House and an assignment of all rents and lease payments related to the Project, bearing interest at 7.10%, maturing July 1, 2012, principal and interest payments of \$5,417 monthly.	396,504
SunTrust Bank	Unsecured tax-exempt line of credit up to \$10,000,000, to provide interim financing for projects under development, bearing interest at 83% of the 30-day LIBOR rate, plus 0.37%, maturing September 30, 2005. The 30-day LIBOR rate was 1.358% at June 30, 2004.	892,500
SunTrust Bank	Unsecured taxable line of credit up to \$5,000,000, to provide funding for taxable ventures, bearing interest at 30-day LIBOR rate plus .50%, maturing October 1, 2005. The 30-day LIBOR was 1.358% at June 30, 2004. There are no outstanding balances as of June 30, 2004.	—
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 1.21% to 5.29%, maturing at varying dates through August 1, 2017, variable principal and interest payments due semiannually.	500,000

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Note holder(s)	Terms	Outstanding balance
Board of Supervisors of Fairfax County	Unsecured bond anticipation notes, bearing interest at 1.20% to 1.80%, interest only payments due annually, maturing at varying dates through November 25, 2005 (James Lee Community Center)	\$ 8,300,000
SunTrust Bank	Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly.	463,000
Board of Supervisors of Fairfax County	Unsecured bond anticipation notes, bearing interest at 1.42% to 2.08%, interest only payments due annually, maturing at varying dates through March 30, 2006. (Herndon Senior Center)	2,300,000
Federal Financing Bank	Unsecured note bearing interest at 6.6%, interest and principal payments in the amount of \$83,856, due annually, maturing November 1, 2012. Debt service on the note (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184.	555,612
		\$ <u>36,290,582</u>

(c) Bonds Payable

On August 29, 1996, on behalf of the Little River Glen project, the Authority issued Federal Housing Authority insured mortgage revenue bonds with an original principal amount of \$6,340,000 and interest rates which vary between 4.65% and 6.10%, with final payment due September 1, 2026, to advance refund the Elderly Bonds, Series 1989A, with an original principal amount of \$6,120,000 and interest rate of 8.95%. The land, buildings, and equipment of the Little River Glen project are pledged as security for the bonds. The old bonds were fully redeemed in fiscal year 1999. At June 30, 2004, \$5,650,000 was outstanding on these bonds.

In June 1998, the Authority issued Series 1998 Lease Revenue bonds with an original principal amount of \$3,630,000 and an interest rate of 4.71%, with final payment due June 15, 2018, to advance refund certain previously issued special limited obligation bonds. The new bonds are secured by the Authority's interest in payments under a lease agreement between the Authority and the County, whereby the Authority leases its Pender Drive Office building to the County, and a first deed of trust on the office building. Proceeds from the new bonds along with other cash sources, totaling approximately \$4,000,000, were placed in irrevocable escrow accounts to provide for all future debt service payments on the old bonds, which were fully redeemed in 2003. At June 30, 2004, \$2,870,000 was outstanding on the new bonds.

In August 1997, on behalf of Herndon Harbor House Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling \$2,875,000 and interest rate of 6.1%

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with final payment due July 1, 2027. The land, building, and equipment of the Herndon Harbor House Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Herndon Harbor House Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility. At June 30, 2004, \$926,593 was outstanding.

In May 1999, on behalf of Herndon Harbor House II Limited Partnership, the Authority issued Series 1999A Multifamily Housing Revenue Bonds with a principal amount totaling \$2,000,000. The Series A, 1999 Term bonds have an original principal amount of \$225,000 with an interest rate of 4.875% with final payment due May 1, 2009. The Series A, 1999 Term bond has an original principal payment amount of \$1,775,000 with an interest rate of 5.5% with final payment due May 1, 2029. The land, building, and equipment of the Herndon Harbor House II Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Herndon Harbor House II Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility. At June 30, 2004, \$1,928,509 was outstanding on the bonds.

In April 1998, on behalf of Castellani Meadows Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling \$1,700,000 and an interest rate of 5.25% with final payment due March 1, 2028. Prior to March 1, 2001, a principal payment in the amount of \$825,000 was due, at which time the interest rate changed to 6.15% per annum. The land, building, and equipment of the Castellani Meadows Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Castellani Meadows Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility. At June 30, 2004, \$829,466 was outstanding.

(d) Annual Principal Requirements

Annual debt service requirements to maturity for bonds payable are as follows:

	Principal	Interest
Year ending June 30:		
2005	\$ 334,214	693,620
2006	358,577	675,716
2007	368,213	656,785
2008	393,143	637,236
2009	418,383	615,444
2010–2014	2,452,844	2,703,243
2015–2019	2,953,355	1,937,920
2020–2024	2,607,033	1,153,236
2025–2029	2,318,806	275,000
	<u>\$ 12,204,568</u>	<u>9,348,200</u>

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Annual debt service requirements to maturity for notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2005	\$ 11,046,591	1,850,445
2006	4,498,605	1,484,929
2007	1,230,318	1,336,622
2008	1,260,742	1,252,013
2009	2,617,282	1,164,323
2010–2014	5,547,803	4,499,977
2015–2019	2,444,002	3,153,436
2020–2024	1,841,019	2,375,563
2025–2029	2,095,059	1,704,467
2030–2034	2,977,399	822,127
2035	731,762	28,247
	<u>\$ 36,290,582</u>	<u>19,672,149</u>

Annual debt service requirements to maturity for Public Housing Loans are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2005	\$ 143,933	97,392
2006	149,695	88,630
2007	160,616	79,710
2008	166,926	70,149
2009	173,497	60,327
2010–2014	598,724	165,979
2015–2019	151,448	13,828
	<u>\$ 1,544,839</u>	<u>576,015</u>

(e) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Bonds payable	\$ 12,519,680	—	315,112	12,204,568	334,214
Notes payable	35,337,263	9,044,500	8,091,181	36,290,582	11,046,591
Public housing loans	1,678,784	—	133,945	1,544,839	143,933
Compensated absences payable	833,783	472,218	392,233	913,768	424,608
	<u>\$ 50,369,510</u>	<u>9,516,718</u>	<u>8,932,471</u>	<u>50,953,757</u>	<u>11,949,346</u>

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(6) Conduit Debt

The Authority is empowered by the Commonwealth of Virginia to issue tax-exempt bonds on behalf of qualified businesses to develop or rehabilitate low income housing within the County. Principal and interest on the tax-exempt bonds is paid entirely by the owners of the properties, which have entered into binding contracts to develop or rehabilitate the subject property. The terms of the tax-exempt bonds stipulate that neither the Authority, nor the County, guarantee the repayment of principal and interest to the bondholders. The bondholders' sole remedy in the event of default on the tax-exempt bonds is the subject property and third-party beneficiaries. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The Authority also has issued tax-exempt lease-revenue bonds to finance the operating costs of community centers and the adult day health care center, which are leased to the County. These bonds are reported as liabilities of the County.

As of June 30, 2004, the cumulative total of the above described bonds outstanding under the Authority's name was approximately \$138,500,000.

(7) Contingencies

The Authority, as the managing general partner of the limited partnerships reported as discretely presented component units, is responsible for ensuring that the partnerships maintain the properties as qualified low income housing projects for a period of 15 years (the tax credit compliance period). In the event that the qualified status of the properties is not maintained for the full period of 15 years, the Authority is contingently liable for the payment of certain special distributions to the limited partners. The amount of these distributions, if any, is to be determined using a formula based on the amount of tax credits that are disallowed. The maximum amount of this distribution is not to exceed the amount contributed by the limited partners to the Partnership, plus any penalties and interest costs incurred as a result of the disqualification.

The Authority receives grant funds, principally from the federal government, for various programs. Certain expenses of these funds are subject to audit by the grantor and the reporting entity is contingently liable to refund amounts received in excess of allowable expenses. The management of the Authority believes that any possible disallowed expenses arising from such an audit, if any, would not have a material adverse impact on the Authority's net assets as of June 30, 2004.

(8) Risk Management

The FCRHA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and citizens; and natural disasters. For all of these risks, the FCRHA participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's insurance program is available in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Notes to Financial Statements

June 30, 2004

(9) Retirement Plans

Employees of the Authority participate in the Fairfax County Employees' Retirement System (System), which covers substantially all County employees who are not members of the Virginia Retirement System or other county-funded retirement plans. Employee contributions to the System for the year ended June 30, 2004, are either 4.0% or 5.33% of salary, depending on the plan selected by the employee. The County funds the remaining portion required to meet the actuarially determined funding requirements. Data concerning the amounts contributed by the County for employees of the Authority, accumulated pension benefit liability, and net assets specifically applicable to employees of the Authority are not available. Information concerning the System as a whole is available in the County's June 30, 2004 Comprehensive Annual Financial Report.